



INDONESIA PENSION CONFERENCE

25 YEARS OF PENSION SAVINGS

"Way Forward for Next Quarter Century"

25-26 April 2017
Grand Hyatt Hotel, Jakarta



DELIVERING PENSION AND SAVING SCHEME COVERAGE TO THE INFORMAL SECTOR

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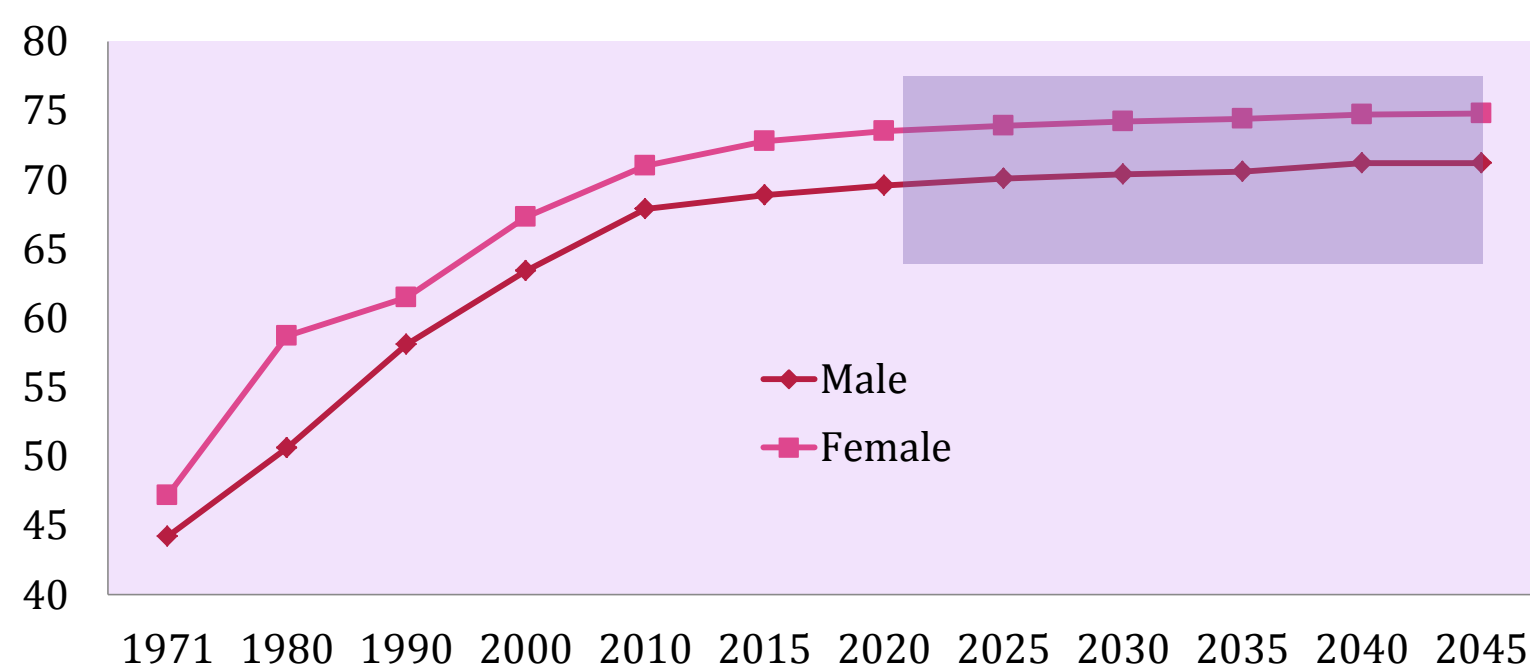
OUTLINE

- Current condition
- Policy in Social Protection
- Challenge: Informal Sector Membership on Pension Program
- Way Forward



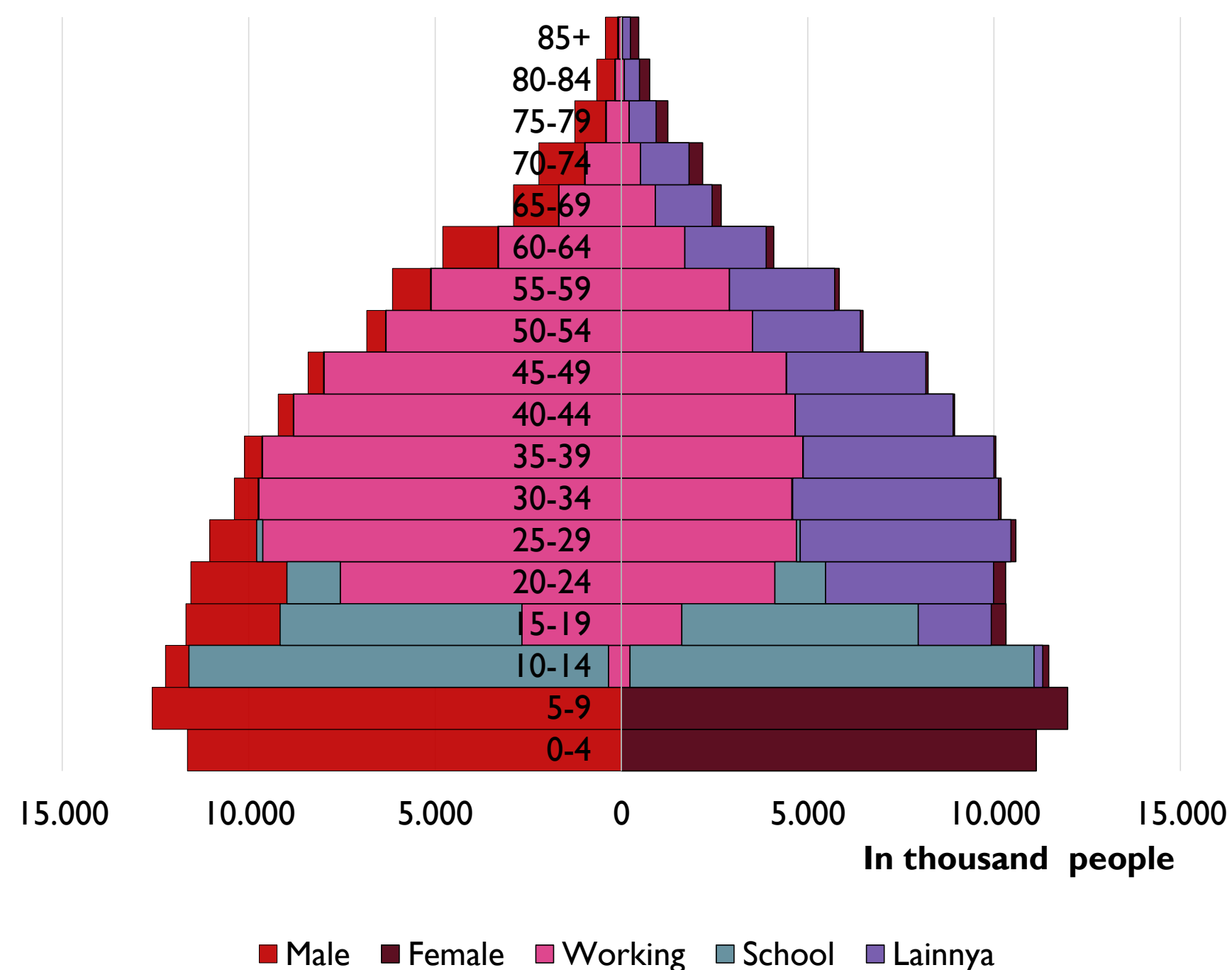
POPULATION STRUCTURAL CHANGES: PENSION FUND AND OLD-AGE SAVINGS AS ONE OPTION TO HARNESS “SECOND DEMOGRAPHIC DIVIDEND”

Life Expectancy at birth by sex (years)



- Number of population 255,1 Million
- Life expectancy in 2015 is 70,8 years and it is expected to continuously increase in the future.
- Indonesia has the largest working population in the region, with Dependency ratio 49,2%
- Number of elderly (65+) is 13,7 Milliion; 24% of them still working (65+) and 16% of 75+
- This requires more comprehensive social security – including pension program or old age savings for all workers

Source: Central Statistics Bureau, Supas 2015, and projection

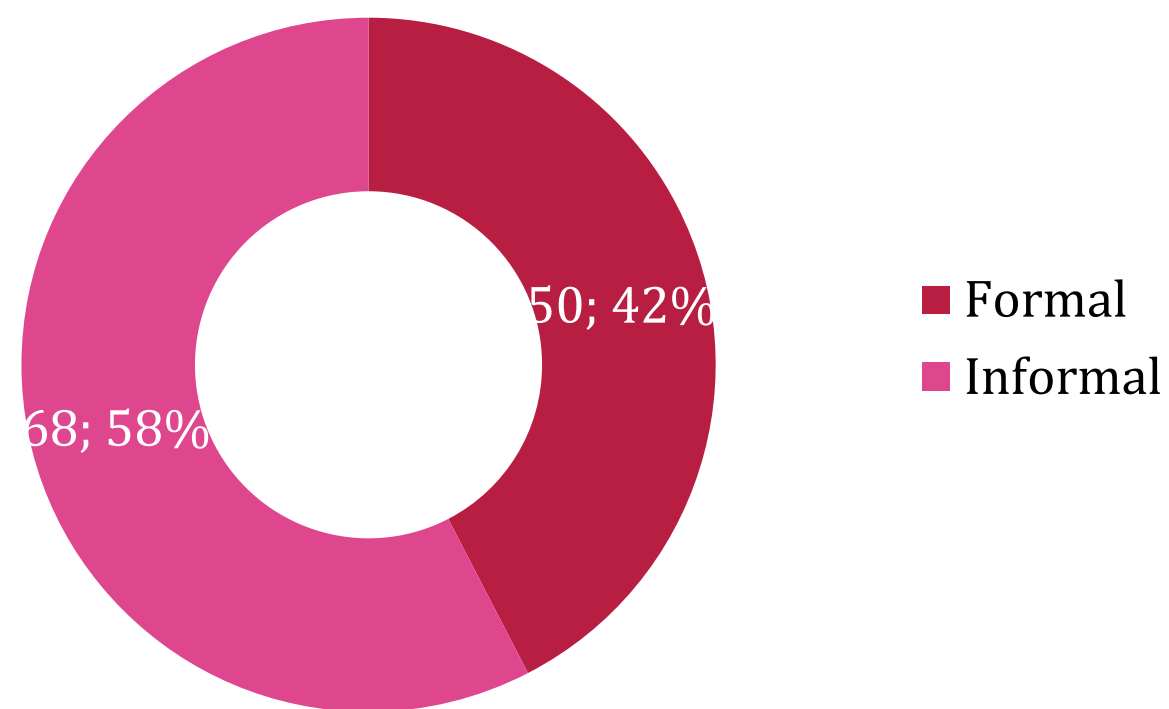


***Within twenty years, our 65+ population
will reach more than 10%***

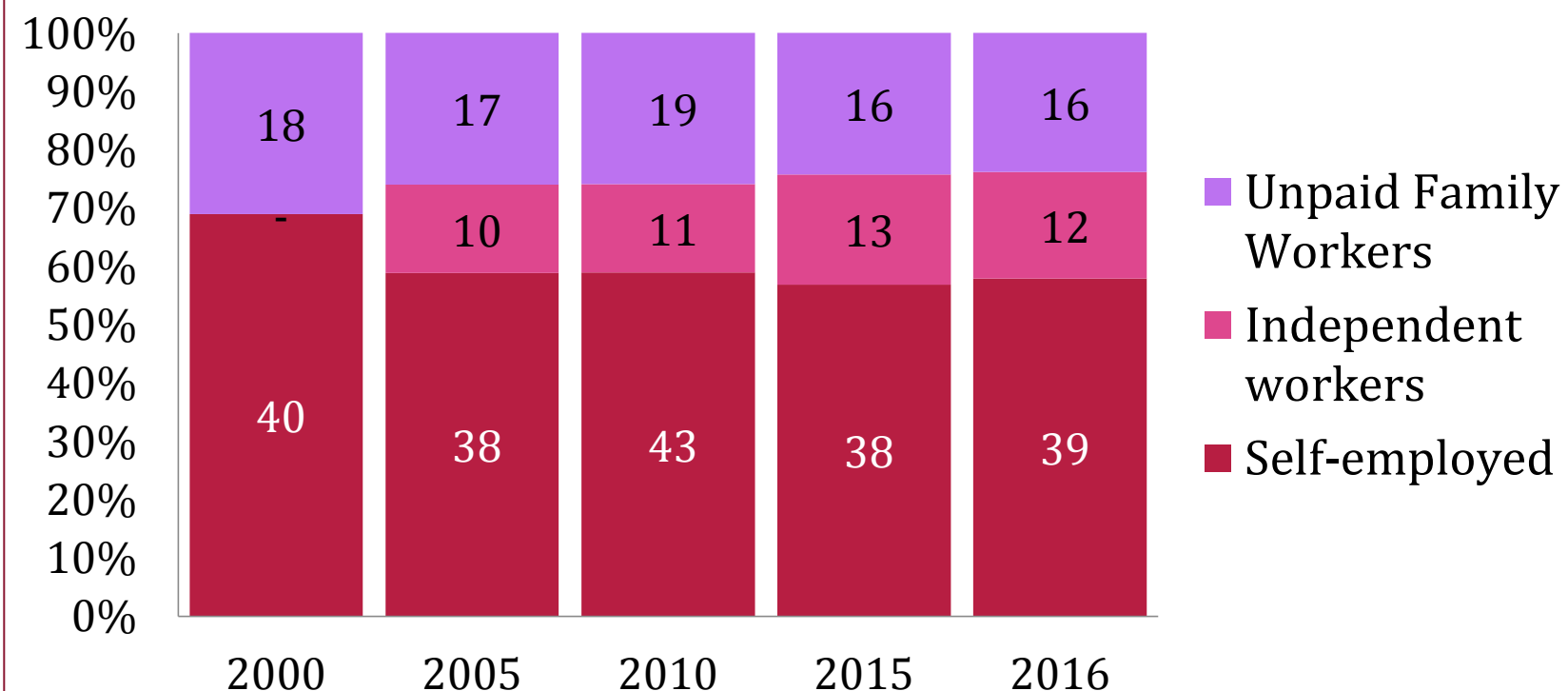


A CHALLENGE: INFORMAL WORKERS STILL THE MAJORITY

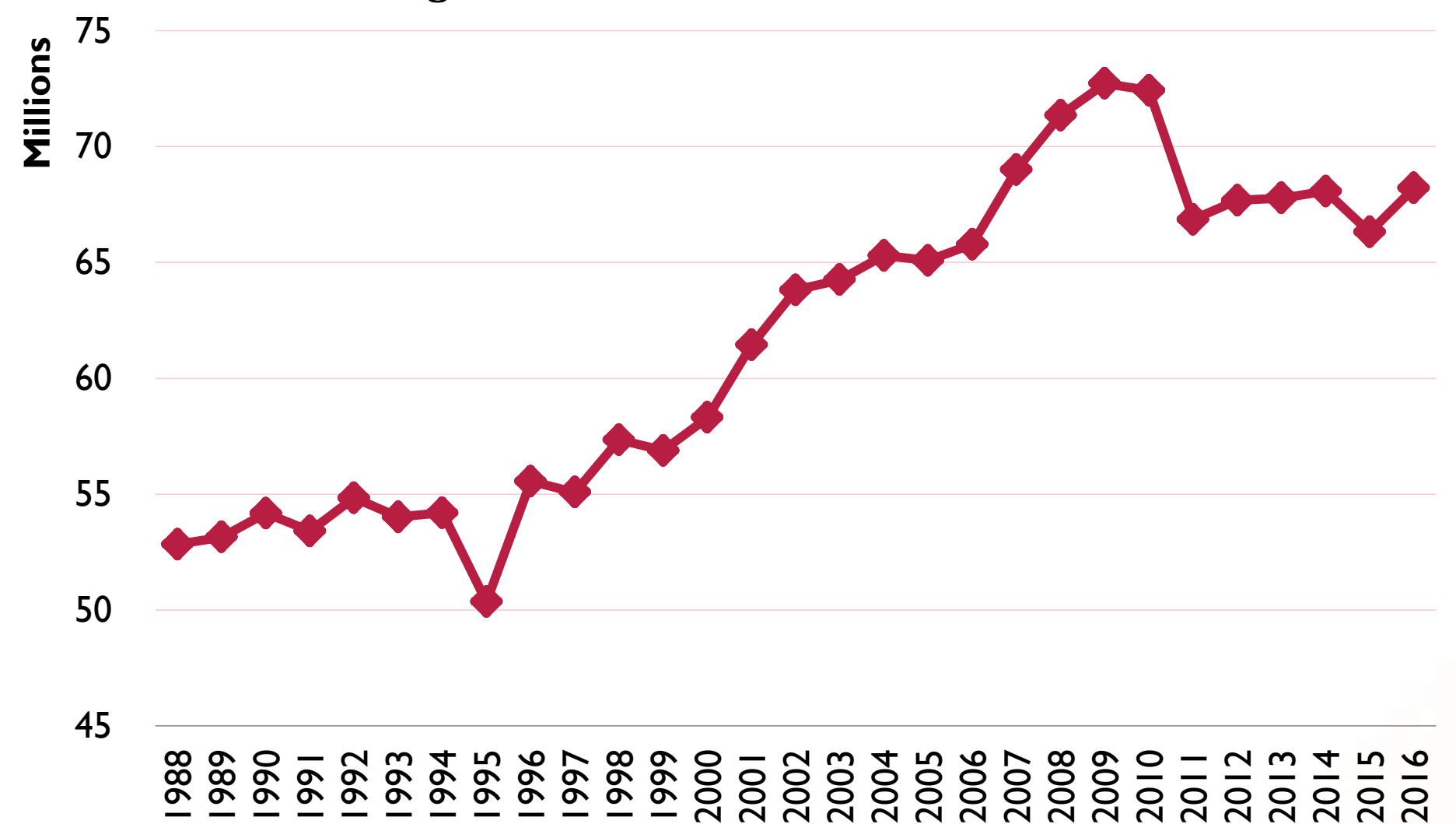
Structures of Workers



Structures of Informal Workers (in Millions)



Increasing Trends of Informal Workers



- Informal sectors may reflect small firms and family business with irregular income (World Bank 2012) → we should carefully build suitable scheme of social security to cover their retirement
- The development of Pension Program for the informal sectors should consider their transformation to formal sectors

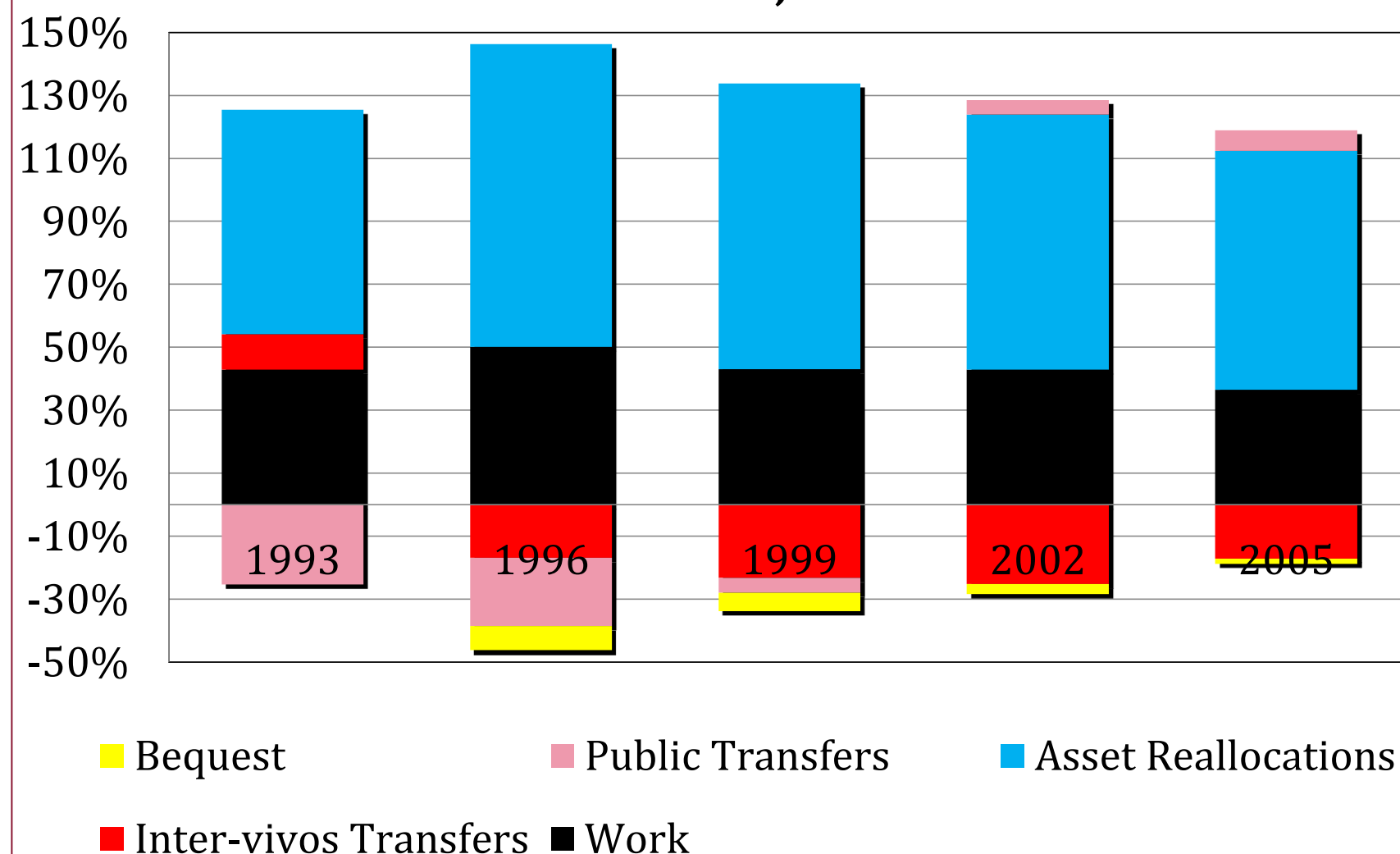
Source: Sakernas, various years, author's calculation



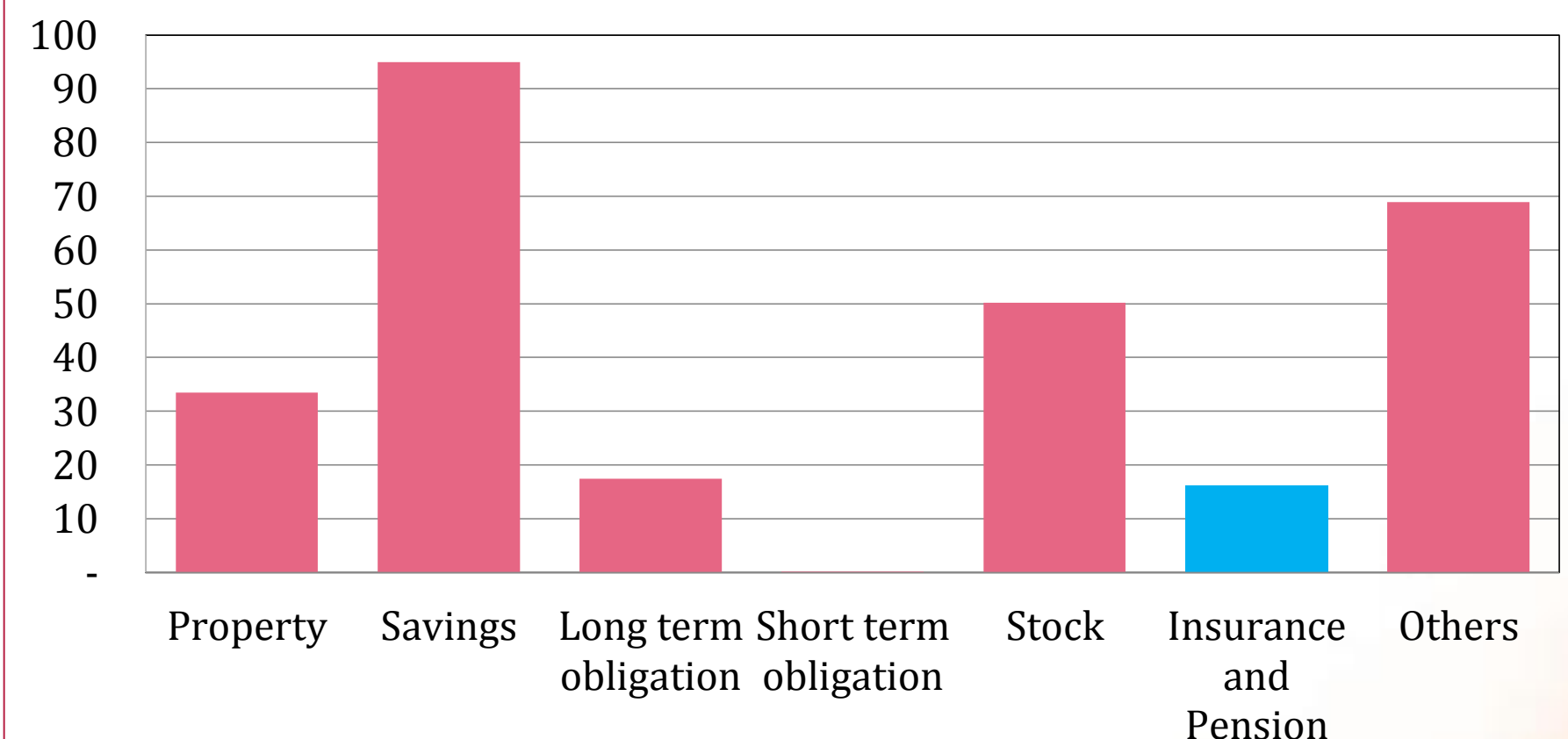
WHILE ASSET REALLOCATION IS SIGNIFICANT, PENSION FUND STILL NOT THE FIRST OPTION

At the aggregate national, elderly finance their retirement through asset reallocation. However, they still use traditional way of investment. Moreover, most of them are also still actively working, which may indicate current retirement sources are not enough to cover the subsistence level of consumption. From time to time, elderly of 65+ tends to support their children or grandchildren.

Finance of the Indonesian elderly's consumption, 65+, 1993-2005



Investment Choice of Households, Triliun Rupiah, 2005



Only around 10% of 60+ elderly relied on pension fund in 2015, 46% still working (Supas, 2015)

Source:

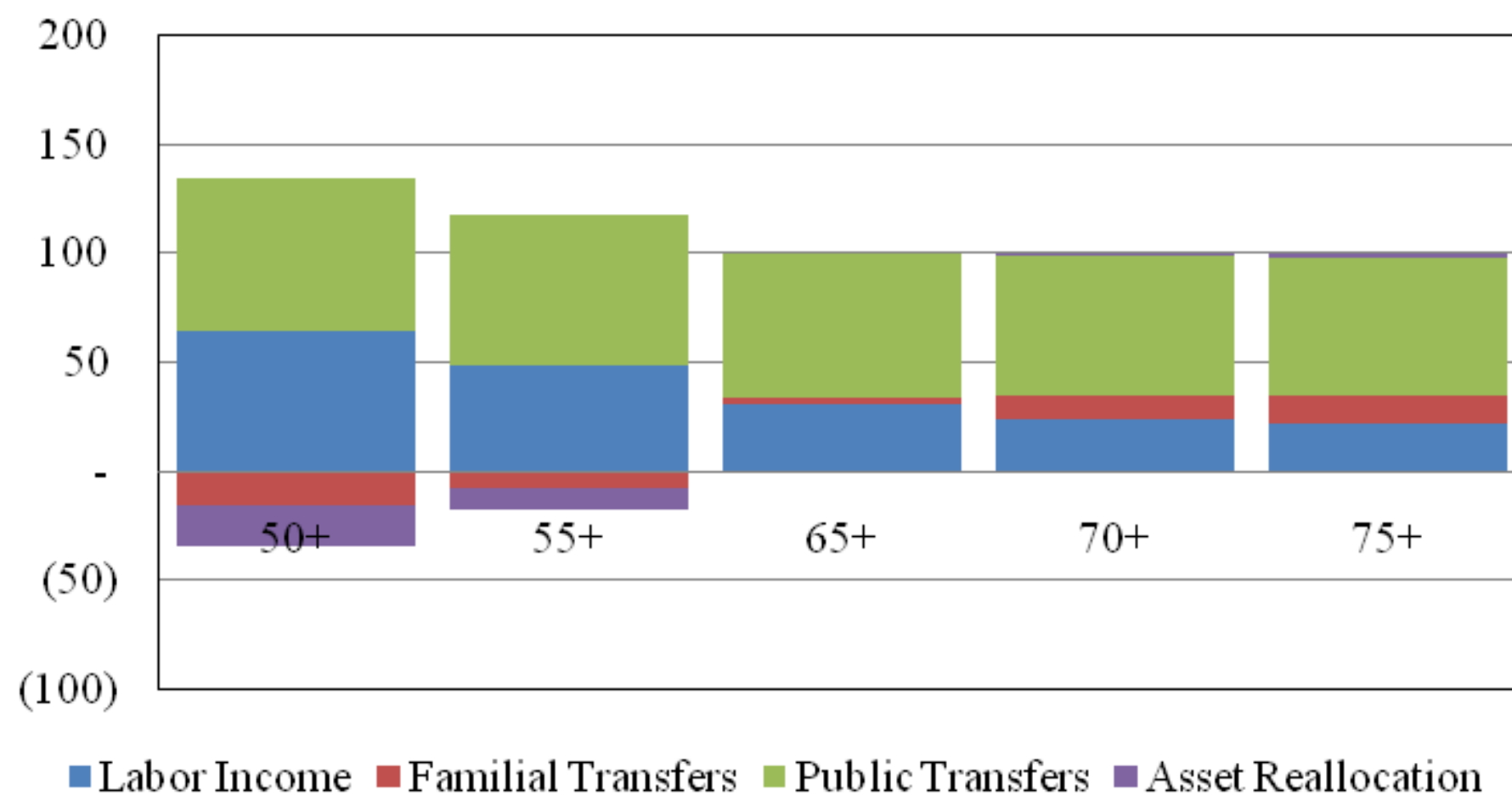
- (1) Social Financial Accounting Matrix 2005;
- (2) Maliki, Implication of Demographic Dividend on Government Policy in Indonesia, 2014
- (3) Maliki, National Transfers Account 1993, 1996, 1999, 2002, 2005



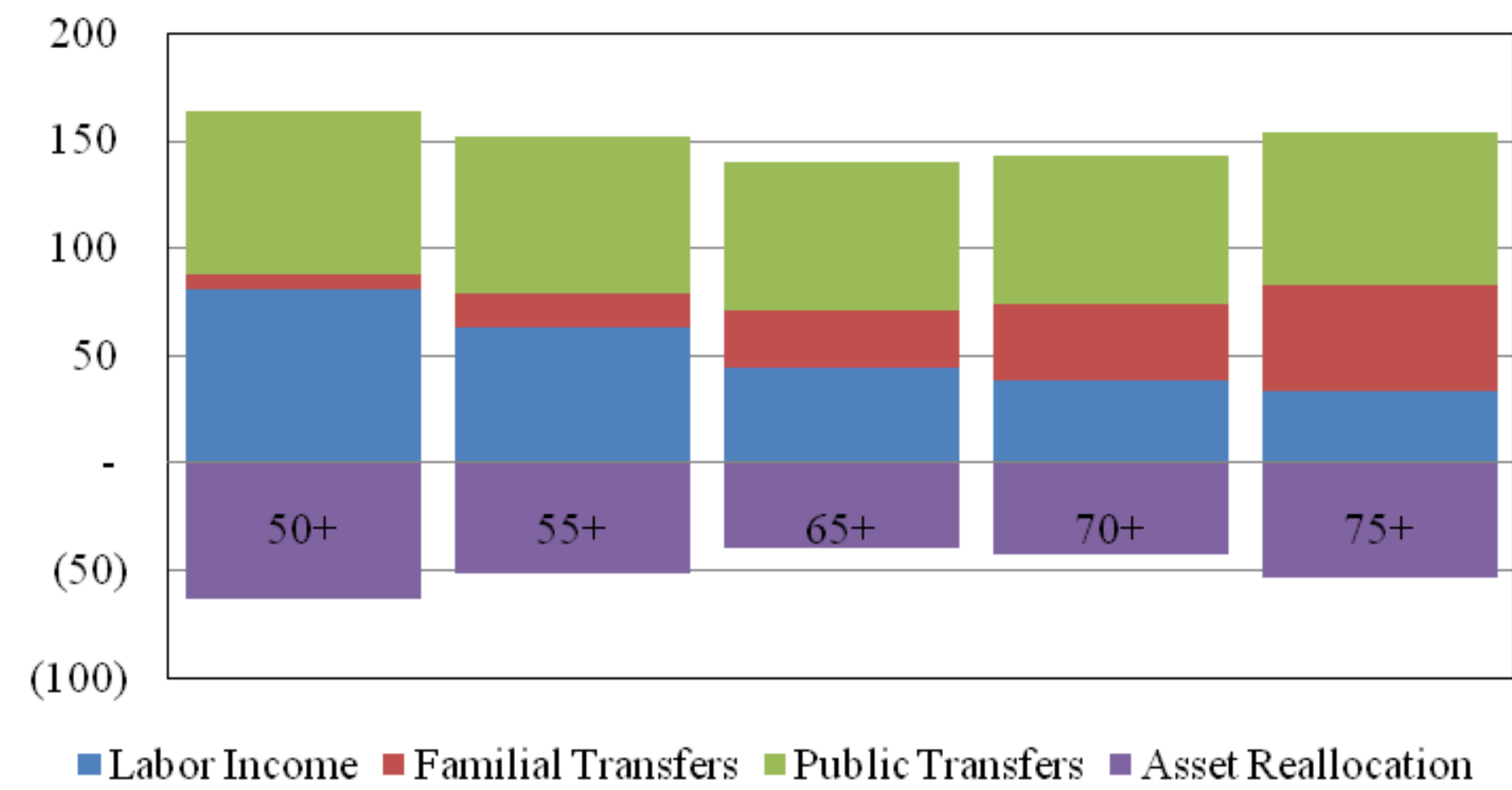
FINANCING RETIREMENT FOR THE POOR – NOT READY FOR RETIREMENT YET

- The poor elderly, regardless of the place of residents, heavily depend on public cash transfers
- In rural areas, the role of private transfers is more apparent
- Labor income is still one of their main source of income – the elderly mainly works at the informal sector (informal self-employed)
- The poor elderly may represent informal workers in the past

POOR-URBAN



POOR-RURAL



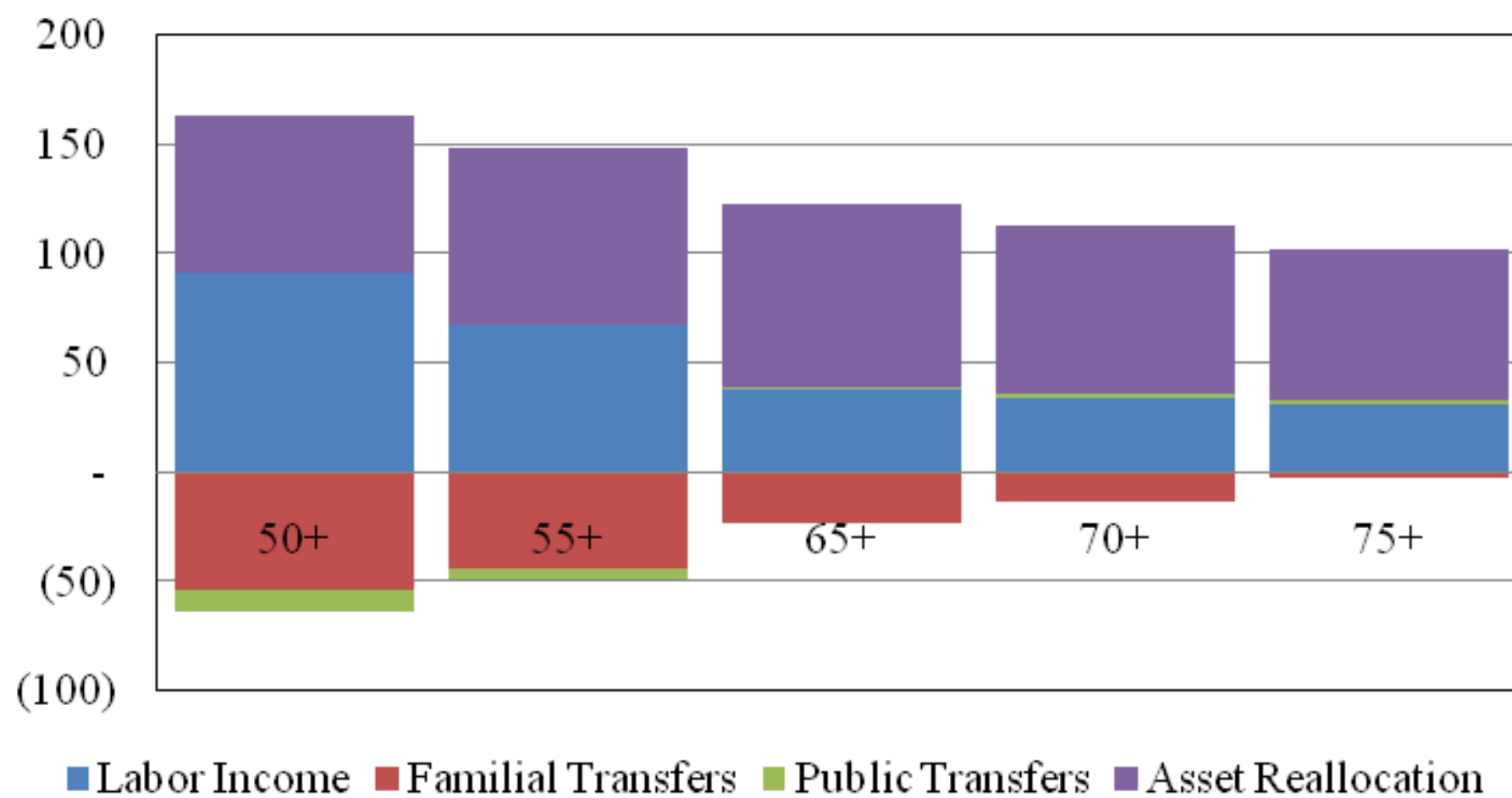
Source: Indonesia National Transfers Account, 2012, author's calculation



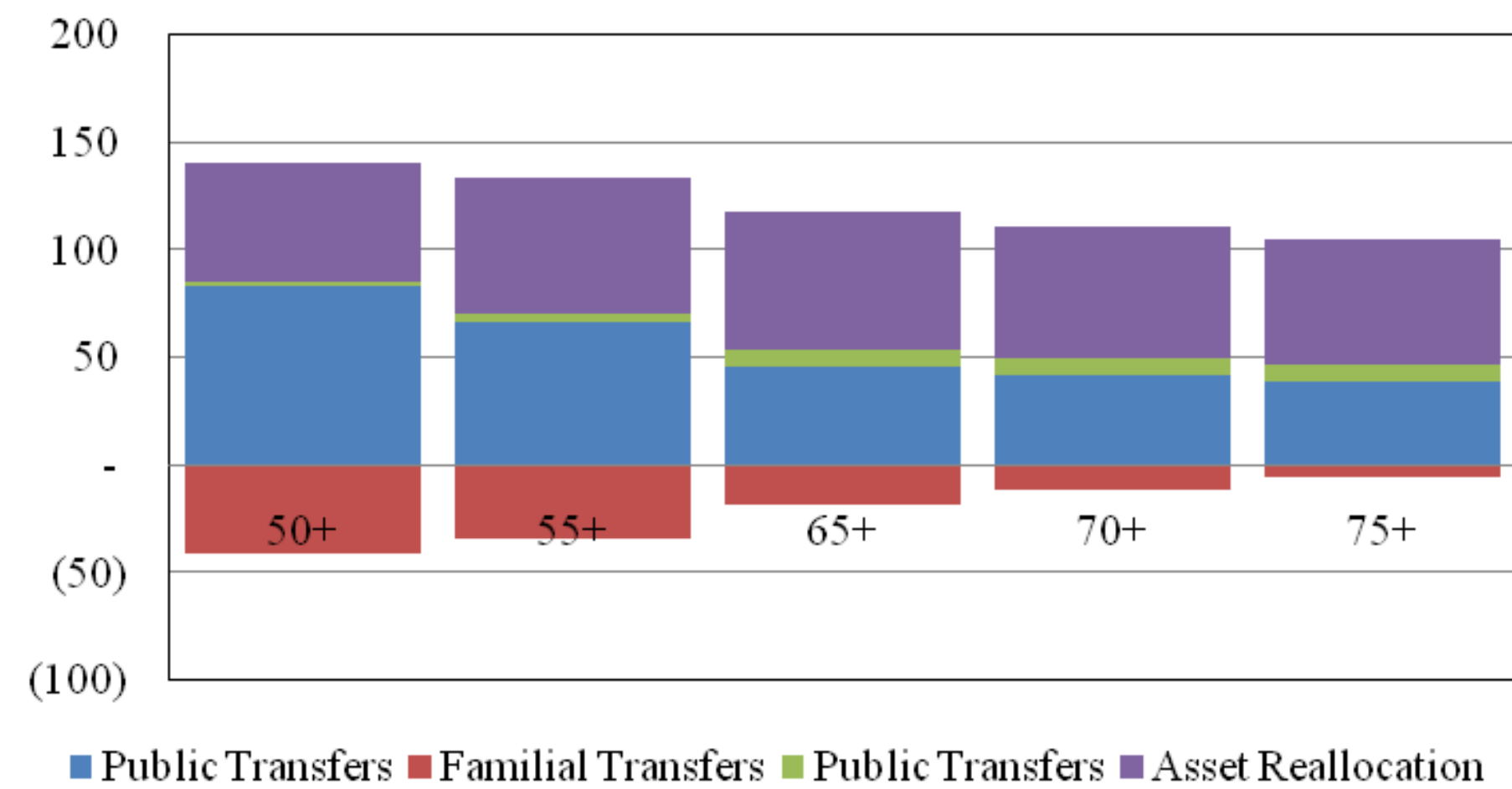
MORE INVESTMENT BASED FINANCING RETIREMENT FOR THE NON-POOR

- The non-poor elderly started to invest for their retirement – both in rural and urban
- Like the poor elderly, labor income is still one of main source of income of the non-poor elderly
- Do they force to work or choose to work ? – more opportunity for productive elderly
- Asset accumulation potentially as part of national savings and contribute to the growth (second dividend)

NON POOR-URBAN



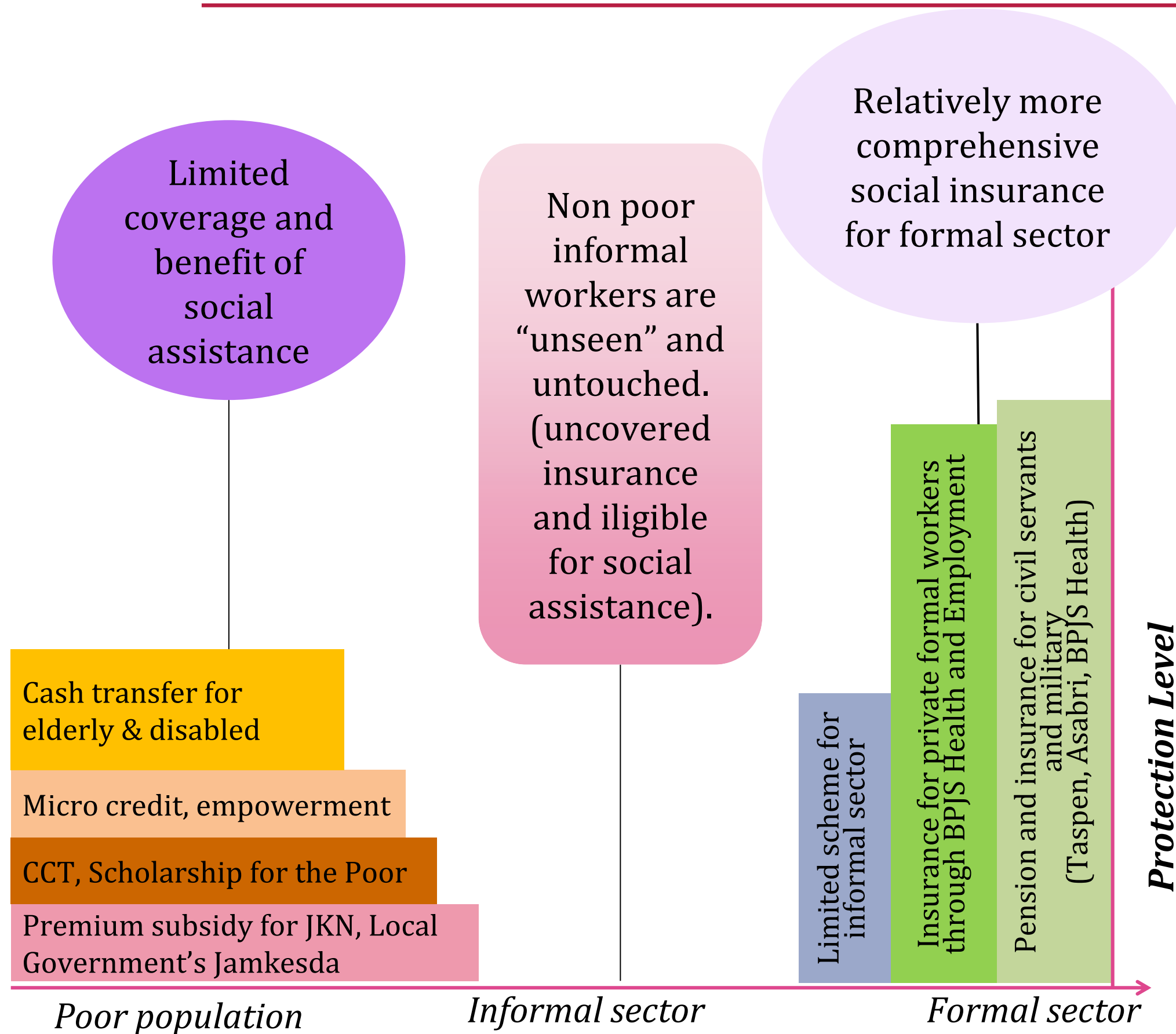
NON POOR-RURAL



Source: Indonesia National Transfers Account, 2012, author's calculation



INFORMAL SECTORS AS MIDDLE MISSING



Main reasons :

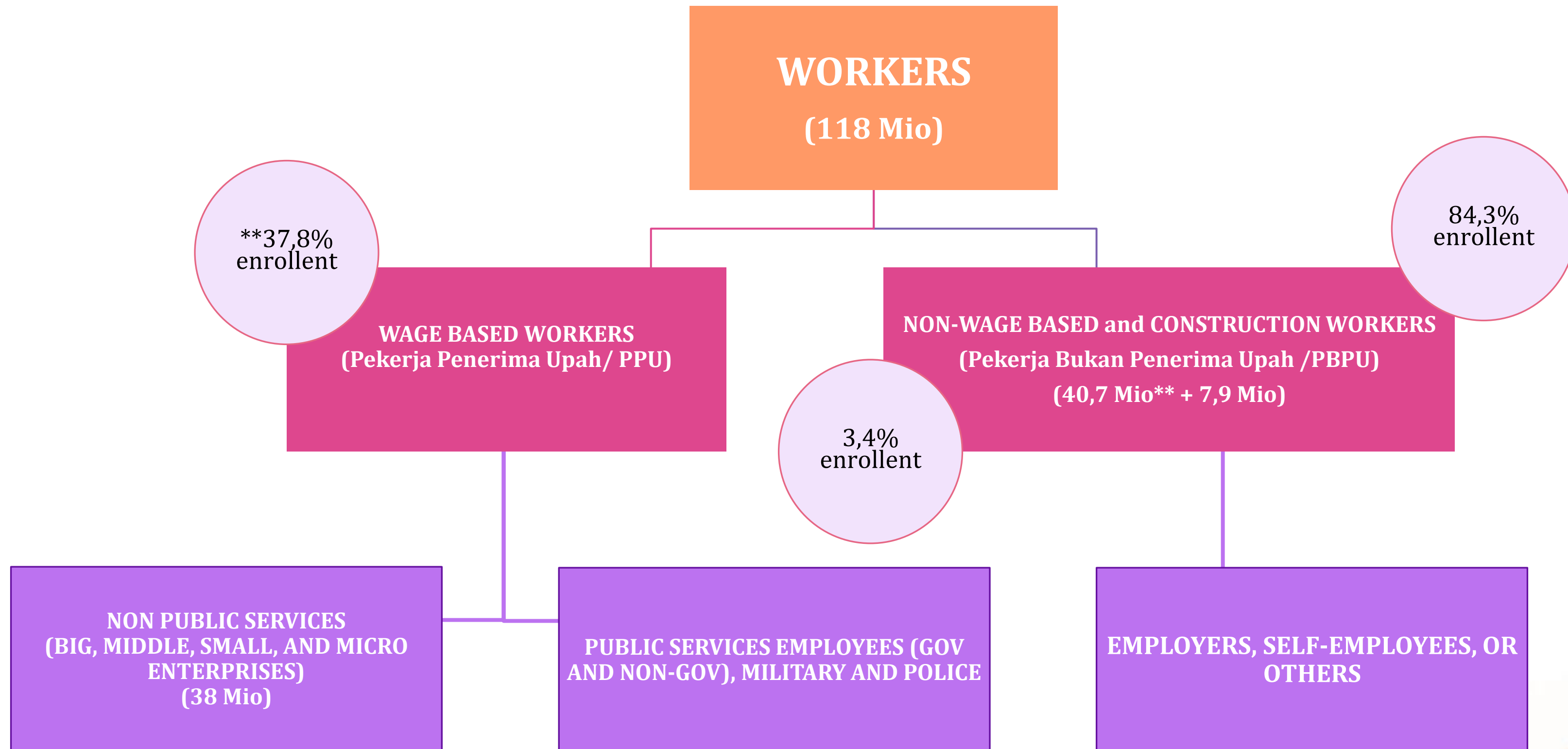
- Financial constraint
- Costs of premium and enrollment
- Lack of insurance literacy
- Administration problem

Right investment choice for retirement will benefit us with 2nd demographic dividend, which is gained at least 0,5% point addition to economic growth

Source: Susenas and WB calculations. EE = exclusion error; IE = inclusion error.

Sources: Acharya et al., 2012; Gargand Karan, 2009; Peters et al., 2002; Pradhan and PrescoL, 2002, Thornton et al.(2010), Hartanto, 2014, J-PAL (2015).

LAW NO. 40/ 2004: A COMPULSORY PROGRAM FOR ALL WORKERS*



* All workers in Indonesia, including foreign workers who has been working at least 6 months

** Enrollment of wage based workers does not include public services employees, Non-wage based figure does not include unpaid workers and workers with less than 20 hours a week





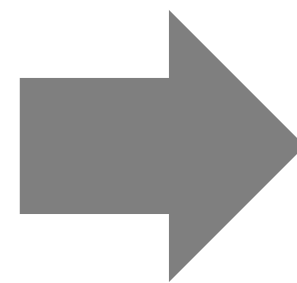
DEVELOPMENT OF PENSION PROGRAM

EARLIER PROGRAM

Not a compulsory program (Voluntary pension program are implemented by the employers)

NOTES

- Pension program is still a voluntary option for small and micro enterprises – that majority may consist of informal workers
- Need to start now! -- building strategy for pension program for informal workers, as majority of workers are informal
- Strengthen the informal sectors to eventually transform them to formal sectors – more sustainable enrollment at the pension program



AFTER LAW NO. 40/2004

Defined Benefit

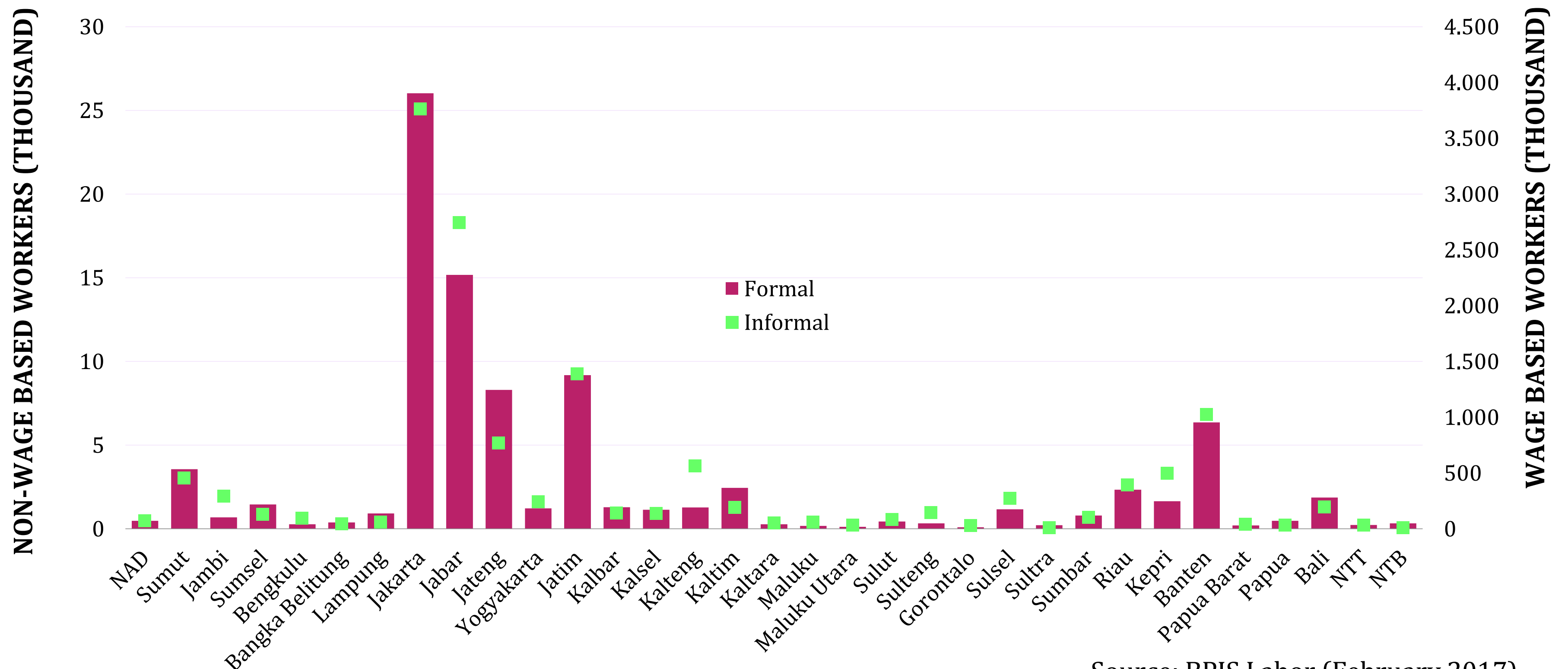
- Old-age Pension, Disable Pension, Inheritances-Benefit, and Benefit for Elderly
- Formula based benefits as a function of working years and last wage

- **Compulsory** for employees of large and middle companies
- **Voluntary** enrollment for employees of small and micro enterprises Sukarela bagi pekerja penerima upah pada skala usaha kecil dan mikro (Presidential Decree 109/2013)



MEMBERSHIPS OF NATIONAL OLD AGE SAVINGS ARE STILL FACING CHALLENGES

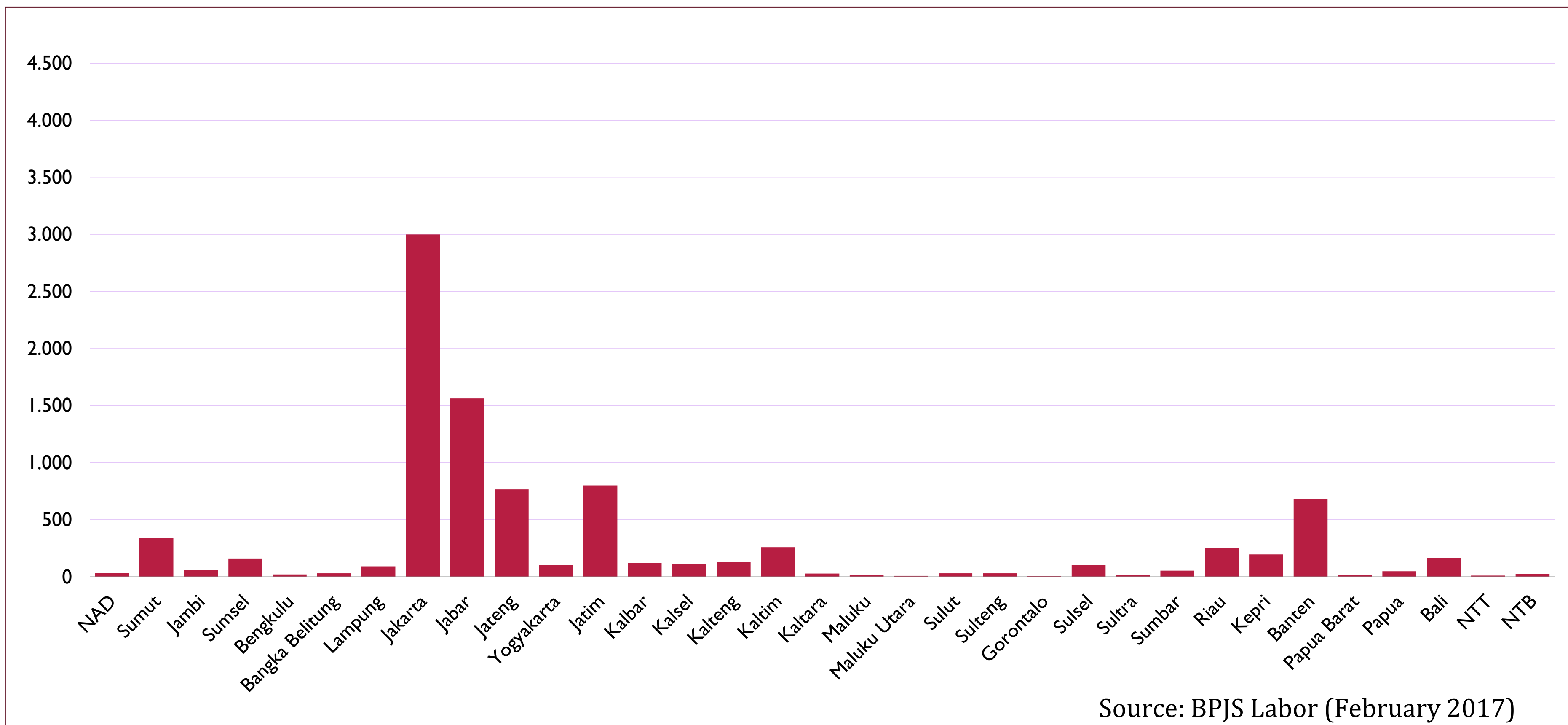
**ENROLLMENT OF OLD AGE SAVINGS PROGRAM (BPJS LABOR) 2017
(THOUSAND)**



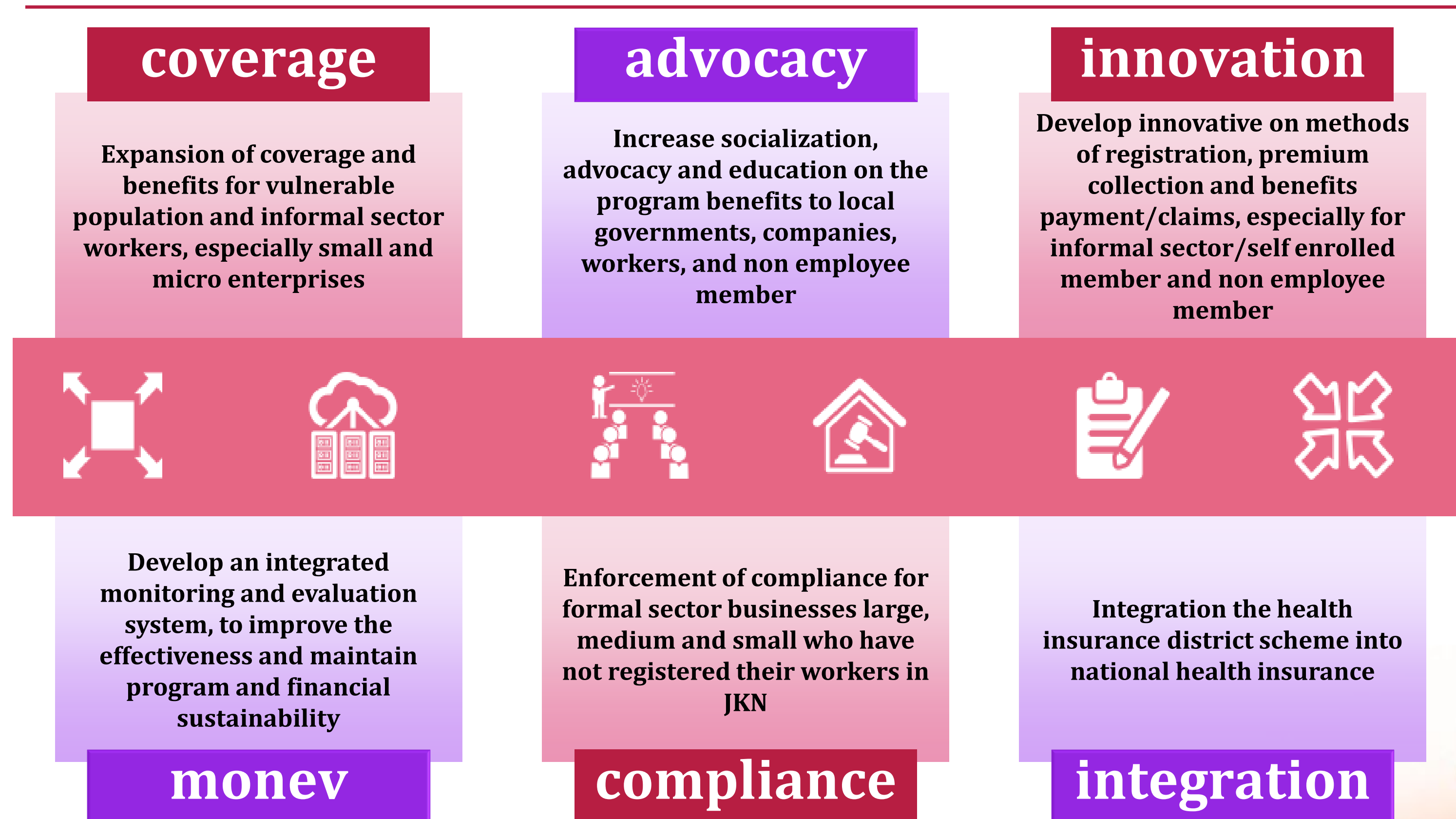
Source: BPJS Labor (February 2017)



LOW MEMBERSHIPS ON PENSION PROGRAM OF BPJS LABOR BY PROVINCE 2017 (IN THOUSANDS)



INFORMAL SECTOR BECOMES ONE OF PRIORITY TO ACCELERATE COVERAGE OF NATIONAL SOCIAL SECURITY SYSTEM (SJSN)



Source: Government Work Plan 2017

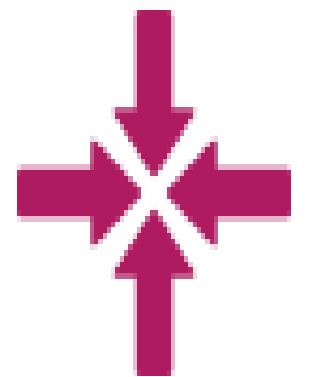


CHALLENGING ON INCREASING COVERAGE OF INFORMAL SECTORS



Urbanization and an
abundant of working
population

Organizational
Integration



Long Term Financial
Commitment

Reinsurance scheme in
Case of Company's
Bankruptcy



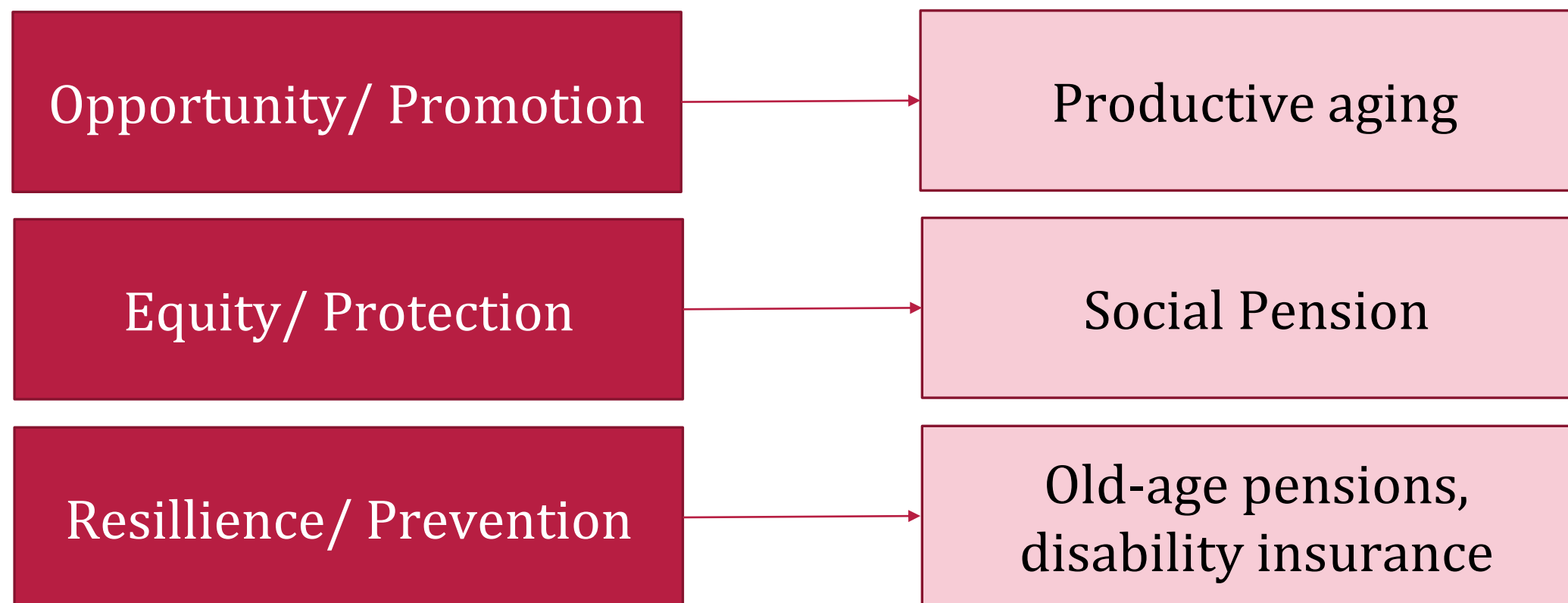
Improving Financial and
Insurance Literacy

Sustainability of
Membership and
Payment

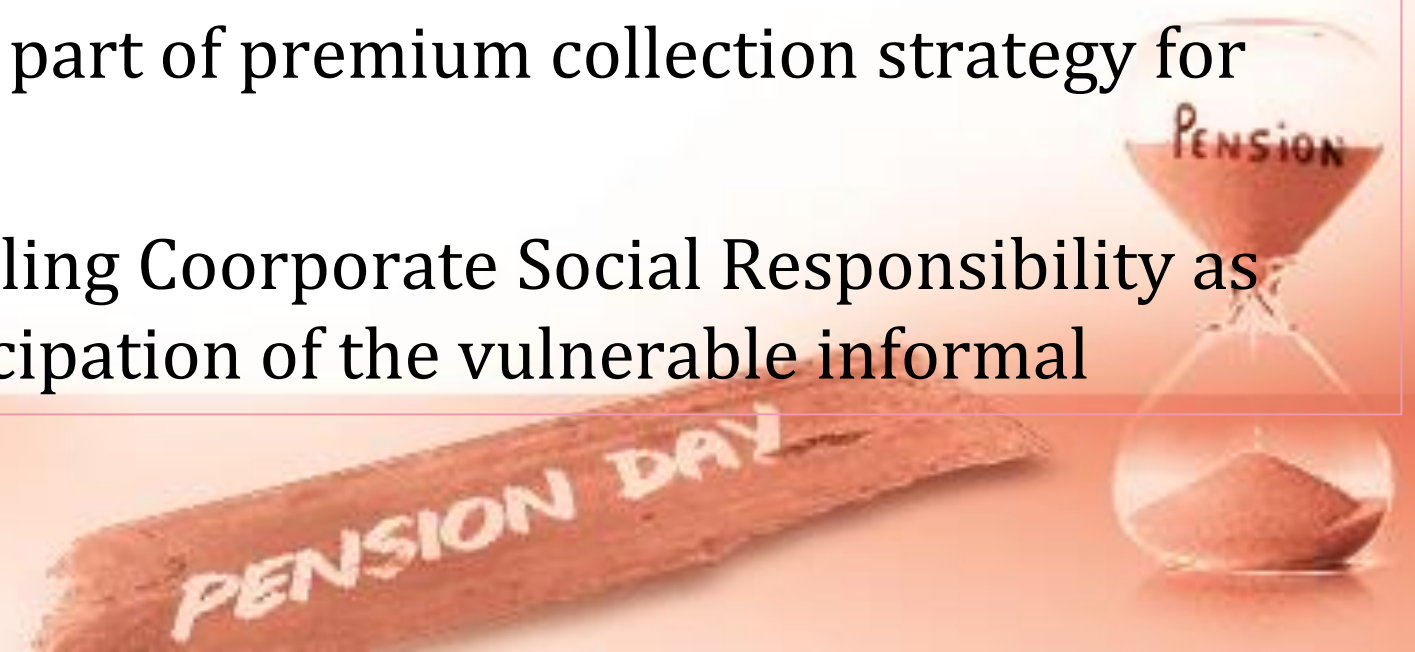


PENSION PROGRAM FOR MORE EQUALITY

HOW THE INFORMAL SECTORS GROW AND ABLE TO SUPPORT THEIR EMPLOYEES



- Not all informal sectors are vulnerable → contributory vs non-contributory scheme
- Strengthening competitiveness of the small and micro enterprises and simplifying procedure for transitioning to formal sectors → ensuring their business sustainability
- Financial literacy and trust → choice of investment for old age
- Incentives → Income replacement rate, high return as start up for low income workers/ self-employed
- Promoting higher role for association or cooperation → ex. for part of premium collection strategy for cheaper cost
- Collaboration with bigger value chained enterprises for channeling Corporate Social Responsibility as subsidies for short term premium to sustain and growing participation of the vulnerable informal



THANK YOU

